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Strengthening superannuation member outcomes

Please find enclosed our submission in relation to the discussion paper on strengthening superannuation member outcomes.

Should you require further information in relation to our submission, please do not hesitate to contact me on (02) 4948 3691 or adam.shultz@mine.com.au

Kind regards,

Adam Shultz
Executive Manager, Policy
Mine Super



Strengthening superannuation member outcomes

Submission by Mine Super

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About Mine Super

Mine Wealth + Wellbeing Superannuation Fund (**Mine Super**) is a profit to members, public offer superannuation fund dedicated to serving the retirement needs of all Australians. Mine Super (formerly known as AUSCOAL Superannuation Fund) has been delivering exceptional retirement outcomes to members for over 75 years. Mine Super offers its members a comprehensive range of superannuation and pension products in addition to insurance and access to financial advice. Mine Super was awarded a Platinum rating by SuperRatings along with Chant West's Five Apples for both super and pension products in 2017. Mine Super employs over 180 staff and manages approximately \$11 billion in assets for more than 63,000 members.

Executive summary

Mine Super welcomes the opportunity to provide a submission to the Australian Prudential Regulation Authority (**APRA**) in relation to its discussion paper on strengthening superannuation member outcomes (**Discussion Paper**). We hope that this submission (**Submission**) is afforded adequate consideration and assists the regulator with its inquiry.

The following is an outline of the key points contained within this Submission:

- We support the proposed measures relating to strategic planning, business planning, fund expenditure and risk management;
- We support the sole purpose test requirements which we believe are still relevant and should be maintained;
- We are broadly supportive of the outcomes assessment, however, we suggest the date of commencement should be extended beyond the date of delivery of the findings from the Productivity Commission and the Royal Commission;
- We do not believe that data-driven comparisons between superannuation funds on publicly available data will add significant value to members;
- We contend that APRA already has look-through capability and the amendments proposed to financial statements will be of little benefit to APRA; and
- We agree that a simple and straightforward insurance opt-out process is in members' best interests.

Overview

In this Submission, we propose to provide information in relation to:

- the revised draft Prudential Standard SPS 220 Risk Management;
- the sole purpose test;
- the draft Prudential Standard SPS 225 Outcomes Assessment;
- proposed financial statement changes; and
- the revised draft Prudential Standard SPS 250 Insurance in Superannuation.

Revised draft Prudential Standard SPS 220 Risk Management

Mine Super supports the proposed measures relating to strategic planning, business planning, fund expenditure and risk management. We believe that these measures will improve the robustness and integrity of a fund's strategic planning processes and provide confidence to all stakeholders that funds are acting in the best interests of their members. Mine Super has invested significant effort over the



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recent period to ensure we have the capability and capacity to adhere to proposed measures in relation to the broader strategic planning process. We have rigorous monitoring and oversight practices in relation to our expenditure processes and welcome the proposals.

Mine Super believes that the new Prudential Practice Guide SPG 221 will assist funds in complying with SPS 220. The additional guidance in terms of reviewing business plans, listing possible metrics for consideration and outlining expectations in relation to expense management is valued. We do, however, seek further detail in relation to the comprehensiveness of information sought by APRA and how much amendment would be required to current accounting processes to satisfy APRA's proposed measure. This advice would ensure that we are able to comply with APRA's requirements while providing some insight into APRA's objectives, which will allow for proper analysis of the proposed changes.

The sole purpose test

Mine Super believes that the sole purpose test requirements contained in section 62 of the *Superannuation Industry Supervision Act 1993 Cth (SIS Act)* are still relevant and should be maintained. There are a number of issues which are addressed through the sole purpose test requirement, including prohibiting the use of concessionally taxed superannuation savings for purposes such as the provision of pre-retirement benefits to members, benefits to employer-sponsors, or the facilitation of estate planning.

We also believe in the conceptual purpose underpinning the sole purpose test, which ensures funds are managed for a core purpose, or, for at least one core purpose and for one or more approved ancillary purposes. This conceptual purpose is particularly pertinent in the current environment, given the Government have recently legislated to allow certain individuals access to their superannuation via the first home superannuation savers scheme. Mine Super believes it is important that the industry maintains a core focus to ensure Australians retire comfortably in the future.

Draft Prudential Standard SPS 225 Outcomes Assessment

Mine Super is broadly supportive of the outcomes assessment outlined in SPS 225, which captures all members and is set to be undertaken on an annual basis. We believe that this outcomes assessment will assist in identifying areas for improvement in terms of investment management, insurance benefits, scale, product features and fund expenditure.

It is our position that the date of commencement for SPS 225 should be extended to allow for key findings from the following to be incorporated:

- the Productivity Commission's review into the competitiveness and efficiency of the superannuation system (Mine Super provided submissions to the Productivity Commission as part of the alternative default model submission and the assessment into the competitiveness and efficiency of superannuation submission which are available [here](#) and [here](#));
- the Financial Services Royal Commission; and
- assessment of adherence to the Insurance Voluntary Code of Practice.

Further to this, Mine Super believes that all-encompassing comparisons undertaken on publicly available data between superannuation funds may have the following issues:

- comparisons will be difficult to complete and will be of little value as there is no set determinant test;
- there will be various technical issues with the making of comparisons (for example, the comparison does not appear to allow for the differences between insourced and outsourced models); and
- it is possible that some funds could seek to intentionally manipulate their data.

For these reasons, Mine Super believes that all-encompassing comparisons may undermine APRA's intended objectives of the proposed measures.

In addition to this, Mine Super contends that the focus for SPS 225 should be expanded to capture a retirement outcomes component, given the proposed primary objective of superannuation is "*providing income in retirement to substitute or supplement the age pension*".¹ Mine Super also contends that a broad 'balanced scorecard' approach may not adequately reflect the efforts of funds and how these efforts relate to the trustee's objective of providing retirement outcomes to members. A more holistically appropriate measurement may be the Member Default Utility Function (**MDUF**). This was developed by Mine Super in conjunction with industry experts and may be more appropriate in relating objectives to outcomes. MDUF reflects a sensible set of preferences for a trustee to assume on behalf of their members. These preferences are:

- for higher and smooth income;
- that outliving savings is a poor outcome;
- that residual benefits have value; and
- people are risk averse.²

¹ Superannuation (Objective) Bill 2016,
https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd1617a/17bd069#_Toc473795053

² Member's Default Utility Function – Version 1 | Creating a new paradigm in retirement planning,
http://membersdefaultutilityfunction.com.au/wpcontent/uploads/2017/06/a_short_introduction_to_mdaf_v1.pdf



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Financial Statement changes

RSE licensees have been required to comply with *Australian Accounting Standard 1056 Superannuation Entities* (AASB 1056) since 1 July 2016, which provided a significant extension to APRA's look-through capability in relation to funds.

An unintended consequence of these changes may be an amount of additional work that will be required to be undertaken by funds emanating from the proposed financial statement changes and additional APRA reporting changes. It is our view, that APRA may already have sufficient look-through capability and any additional effort (and cost) required by a fund to meet new requirements will be borne by members.

Revised draft Prudential Standard SPS 250 Insurance in Superannuation

Mine Super offer (group default) life, total and permanent disability and income protection insurance to our members that is valued due to their often-dangerous employment conditions. Mine Super agrees that a simple and straightforward opt-out process that all funds must comply with for insurance products is in the best interests of members.



Issued by AUSCOAL Superannuation Pty Ltd ABN 70 003 566 989 AFS licence 246864 Trustee for the Mine Wealth and Wellbeing Superannuation Fund ABN 16 457 520 308.